

RESTRICTED APPRAISAL REPORT

Proposed Land Banking Sale
W1/2-NW1/4, Sec. 36, T27N-R23W, Haskill Mountain
Flathead County, Montana
July 21, 2005

Prepared for:
State of Montana
Department of Natural Resources and Conservation
Trust Land Management Division
Real Estate Management Bureau
1625 11th Avenue
Helena, MT 59620

Prepared by:
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State of Montana
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1625 11th Avenue
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CLIENT

State of Montana, Department of Natural Resources and Conservation (DNRC)

INTENDED USERS

DNRC Real Estate Management Bureau staff, and Northwest Land Office staff.

INTENDED USE

The intended use is to provide DNRC with the information to make an administrative determination of the minimum bid price for the auction sale of an 80-acre parcel of State Trust Land.

USE RESTRICTION

This report is limited to the client and intended users identified in this report. The appraiser's opinion and conclusions set forth in the report may not be understood fully without additional information in the appraiser's work file.

SCOPE OF APPRAISAL

The scope of the appraisal involved inspecting and gathering pertinent data concerning the subject property and adjacent lands, analyzing the highest and best use of the subject property, gathering market information about property sales similar in nature to those of the subject, and applying the market data (sales comparison approach) to arrive at an opinion of current fair market value. The subject area was viewed from the valley road on April 11, 2005. The subject site was visited on July 21, 2005.

DEFINITIONS

Current fair market value. (MCA 70-30-313) Current fair market value is the price that would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the following factors:

- (1) the highest and best reasonably available use and its value for such use, provided current use may not be presumed to be the highest and best use;
- (2) the machinery, equipment, and fixtures forming part of the real estate taken; and
- (3) any other relevant factors as to which evidence is offered.

Easement. An interest in real property that conveys use, but not ownership, of a portion of an owner's property. Access or right-of-way easements may be acquired by private parties or public utilities.

Highest and best use. The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

Date of Inspection and Effective Date of Valuation:

July 21, 2005

Type of Report

Complete appraisal – restricted report

Property Rights Appraised

Fee simple interest

Statement of Highest and Best Use

Although the subject is currently considered timberland, the highest and best use of the subject property is as a residential/recreational site(s). This is based on legal, physical and economic factors in regards to the subject. (Approval for use of the Forest Service road and utilities extension would be desirable, however both could likely be done.)

Approaches to Value

The market data approach was the only approach applicable to this assignment. There are no building improvements; consequently, the cost approach to value was not used. The income capitalization approach was not applicable.

Subject Property & Area Description

The legal description for the subject property is: The West 1/2 of the Northwest 1/4 of Section 36, Township 27 North, Range 23 West, Flathead County, Montana.

Per TLMS and the cadastral system, the subject property consists of 80 acres. The subject is mostly timbered with a few small open areas and small rock outcroppings. The terrain is generally an eastern facing slope that varies from moderate to very steep. Elevation varies from about 3,600 feet to 4,100 feet. The views from the site are generally average to good.

The subject is located about 4 air miles southwest of Kila or approximately 12 air miles southwest of Kalispell. As shown on the location maps, the private properties in the subject's general neighborhood range in size from about an acre to entire sections. These properties consist mostly of agricultural land, timberland and residential sites. Other state and federal parcels are also in the area. Except for some "home" businesses, the fully developed commercial parcels are located along Highway 2, and mostly closer to Kalispell. While the subject property is currently managed for timber, the trend in the subject's market area is towards development into residential sites.

Access to the subject property was gained by traveling on a Forest Service road for about two miles after leaving a county road, of which the second mile was rather rough. (At this time, there is no designated legal road access to the parcel.) It is this appraiser's understanding that this route (could, with appropriate permits from the Forest Service,) provide legal access to the subject property. The site was viewed from this road. It appears that both electric and phone service are close to the east side of the property. Considering the terrain, access and

utilities, it appears the subject property would probably only be suitable for one or two home sites.

Subject Property Market

Flathead County and the general Kalispell area have seen a strong real estate market due to growth and demand. While no published information about property value changes for rural Flathead County was found, there are some policy/study papers out there that indicate the growth and demand will continue for the foreseeable future. For example, rural Flathead County saw a 28.9% population increase between 1990 and 2000. According to studies of larger regional markets, overall demand is expected to remain fairly high. As such the location of the subject should mean that this would indeed be a desirable property for residential/recreational use.

Market Data Approach

The search for comparable sales encompassed the Kila area of Flathead County. The attached Comparable Sales Location Map provides a good idea of the search area. Several real estate offices, the local MLS system, the cadastral system including its aerial photos, area topo maps, and two knowledgeable appraisers in the area were all utilized. Within the market area, ten sales of approximately 20 acres to 880 acres were found. These ten sales, with information supplied by the various sources noted above, were considered in order to form an opinion of current fair market value. (Eight current listings also located in the subject's market area were all "reviewed" as a "check" on the logic used and opinion formed in this report. Those listings ranged from 40 acres to 160 acres in size.)

All of the comparable sales were compared to the subject property on the basis of price per acre. This, according to area appraisers and real estate brokers/agents, is the typical unit of measurement by which buyers and sellers express value of this type of property in the market area. The comparable sales were analyzed for Property Rights Conveyed, Financing and/or Conditions of Sale, Location, Date of Sale (a time factor), Size, Access & Utilities and Land Features. The comparable sales are summarized on pages 6. On page 7 is a Comparable Sales Adjustment Table. Matched pairs, when available, were used to provide indicated adjustment amounts for some characteristics, while for others, adjustments were based on opinions provided or general trends found.

Note: No figures were worked up for any excess timber that may exist on the subject property. Excess timber is that timber over the 1.5 MBF to 2 MBF per acre range that could be removed without negatively affecting the value as a residential/recreational site.

Property Rights Conveyed:

The subject property is appraised in fee simple interest. As all of the comparable sales sold on the basis of fee simple interest, no adjustments were made to the comparable sales for property rights conveyed and this criterion has not been included in the adjustment table.

Financing/Conditions of Sale:

All of the comparable sales sold for cash or on terms equivalent to cash. The market value opinion in this report is also based on cash or terms equivalent to cash. No adjustments were

made to the comparable sales for financing or conditions of sale and this factor has not been included in the adjustment table.

Location:

All of the comparable sales are located in the subject's market area. Comparing the comparable sales with each other indicates no clear-cut difference due specifically to location and none is apparent to exist between the comparables and the subject. Thus no adjustments were made to the comparable sales for location and this aspect has not been included in the adjustment table.

Date of Sale:

The comparable sales occurred between August 2004 and May 2005. Review of the comparable sales with each other does not provide clear evidence of a specific adjustment for time. Rather the sales show an overall increase in value over time. This is reflective of what the general real estate market has been doing. Based on information contained in appraisals in other market areas, there is strong support for minimal value increases of approximately 7% per year compounded. The adjustments have been applied to the comparables, calculated as a single percentage figure, as shown in the adjustment table.

Size:

The comparable sales range in size from 20 acres to 880 acres. Generally it is believed that smaller parcels sell for higher prices per acre, (although at times larger parcels can also give more flexibility in development or may have a demand based on minimum needed size). Review of sales in other appraisals indicates support for this premise. However review of these comparable sales does not provide a clear indication of what this difference could be or where the "break points" in size may be. That is, it appears 20-acre parcels sell the same as 40-acre parcels, all other variables being the same. The next size range jumps from 40-acres to 238-acres, with other factors also involved. Therefore, the adjustments made to the comparable sales in the adjustment table have been kept cautiously nominal and paired with a factor amount.

Access & Utilities:

The subject and all the comparable sales, except Comp Sale No.10, have access ranging from fair to average to slightly better than average. The subject and all the comparable sales, except Comp Sale No.10, had utilities either on site, very close by, or reasonably close. Per the listing broker, Comp Sale No. 10 did not have legal access or utilities. Again however, review of these comparable sales does not provide a clear indication of what these differences may be. Adjustments made to the comparable sales in the adjustment table have again been kept minimal.

Land Features:

This category includes the availability of timber or water, if any, on a parcel, general topography and elevation, and/or view. Although these influences can be hard to quantify, certain generalities can be made. Typically, water features, trees, diversity, views, and good building spots all add to desirability and usually prices paid. Thus under this premise,

minimal adjustments were made to the appropriate comparables as shown on the adjustment table.

Final Reconciliation

To restate and summarize, Date of Sale, Acreage Size, Access & Utilities and Land Features have all been considered and the comparables have been adjusted accordingly. While considered, no adjustments were made to the comparable sales for Property Rights Conveyed Financing/Conditions of Sale, or Location.

On an unadjusted basis the comparable sales range from a low of \$1,010/acre (Comparable Sale No. 10) to a high of \$7,280 /acre (Comparable Sale No. 8). On an adjusted basis the comparable sales range from a low of \$1,485/acre (Comparable Sale No. 10) to a high of \$4,295 /acre (Comparable Sale No. 8). For this report, Comparable Sale No.'s 4, 6, 8, 9 & 10 were considered the poorest comparables and thus were not relied upon to form an opinion of value. Of the remaining five comparable sales, Comparable Sale No.'s 1, 2 & 7 were weighted more than Comparable sales No.'s 3 & 5. Thus, the indicated price per acre is \$2,367.

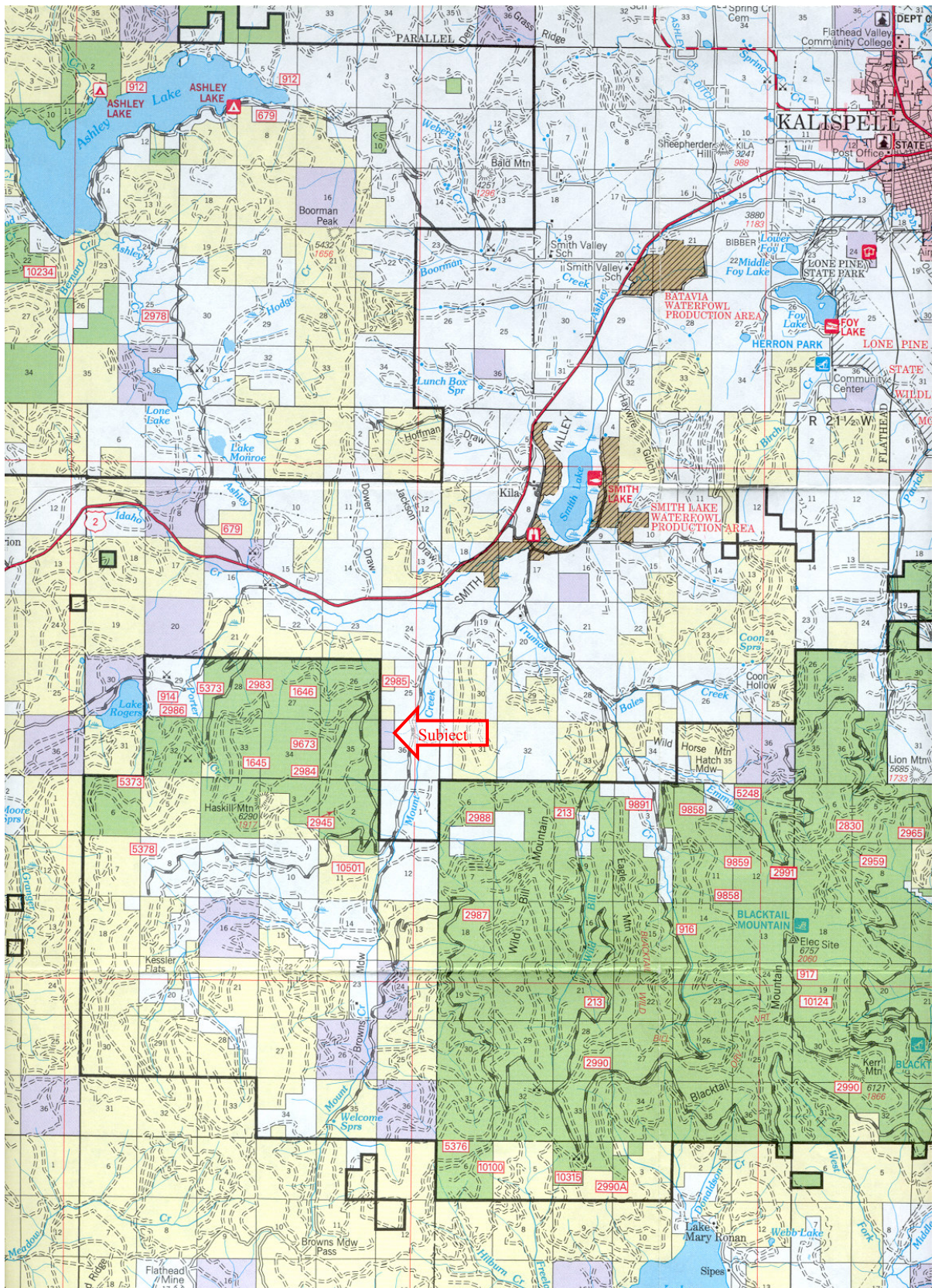
Therefore, 80 acres X \$2,367 per acre = \$189,360.

The purpose of this appraisal report is to provide an opinion of market value of the real property that is the subject of this report based on the market value definition, assumptions and limiting conditions, certification, and any other conditions included in or attached to this report. Further, it is assumed that there has not been any significant change, physical or otherwise, to the subject property between the inspection date and date the report is signed. As such, it is my opinion that as of July 21, 2005, the current fair market value of the subject property is \$189,360. (As stated before, no figures for any possible excess timber or harvesting costs were developed.)

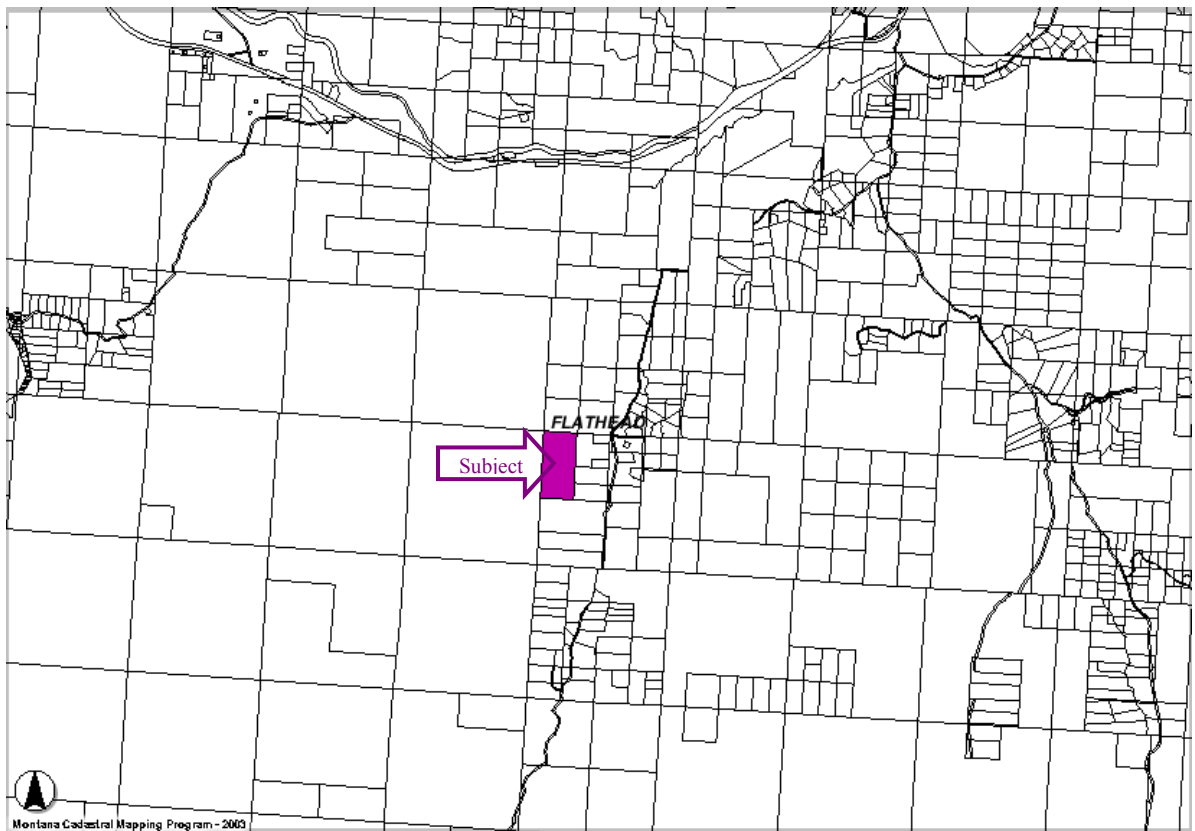
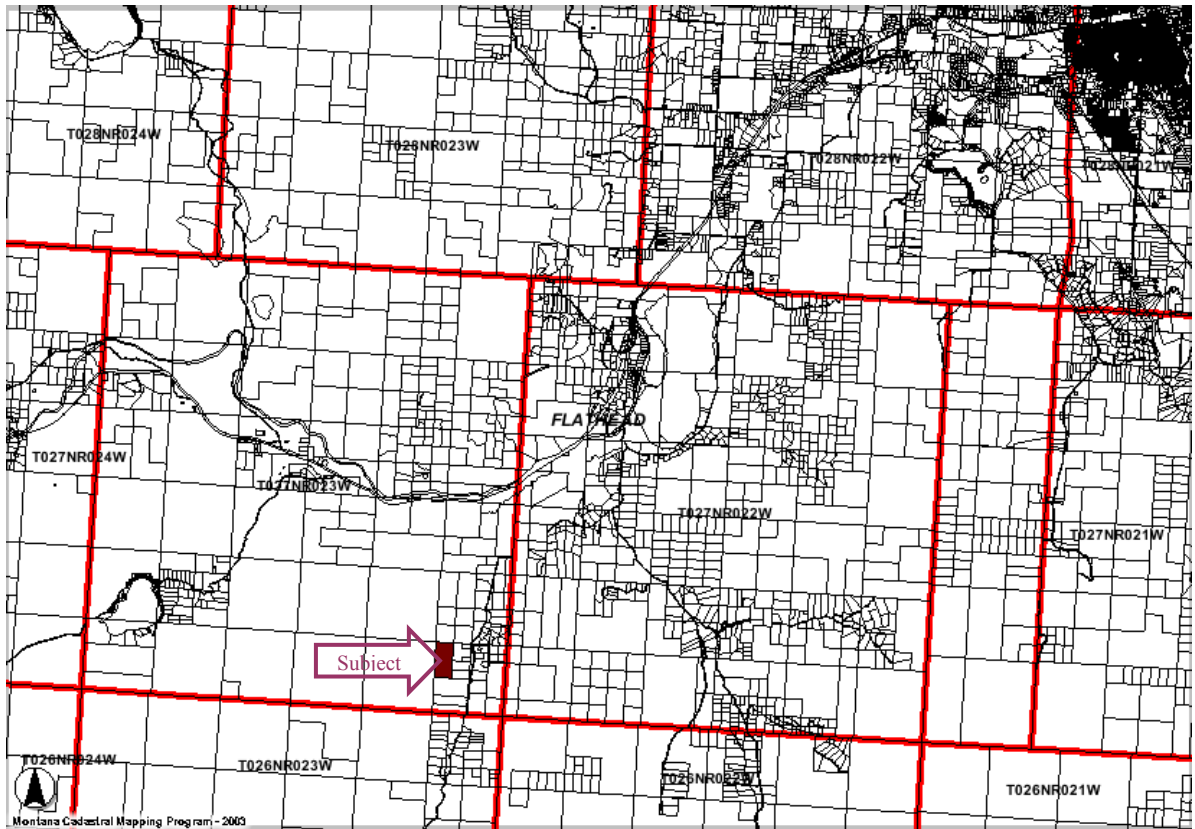
Thomas J. Konency, Montana DNRC TLMD Appraiser

Dated: August 12, 2005

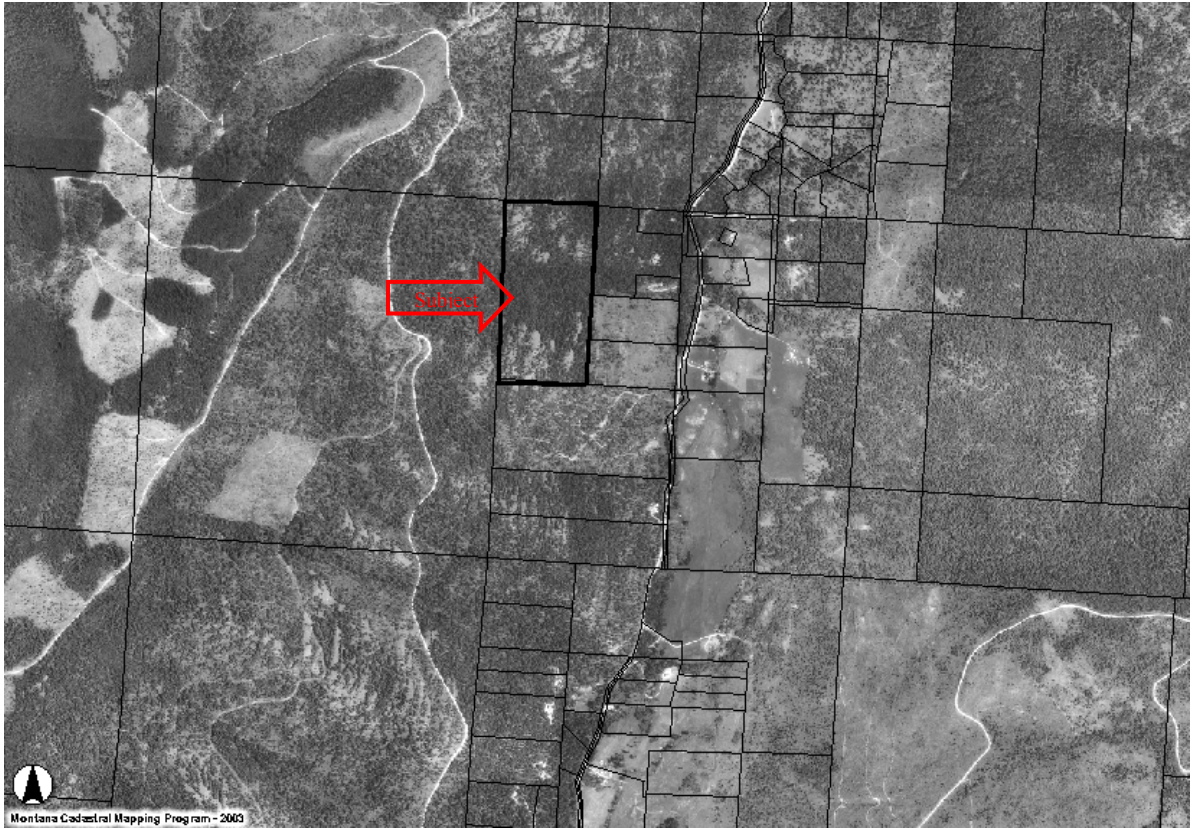
Subject General Location Map



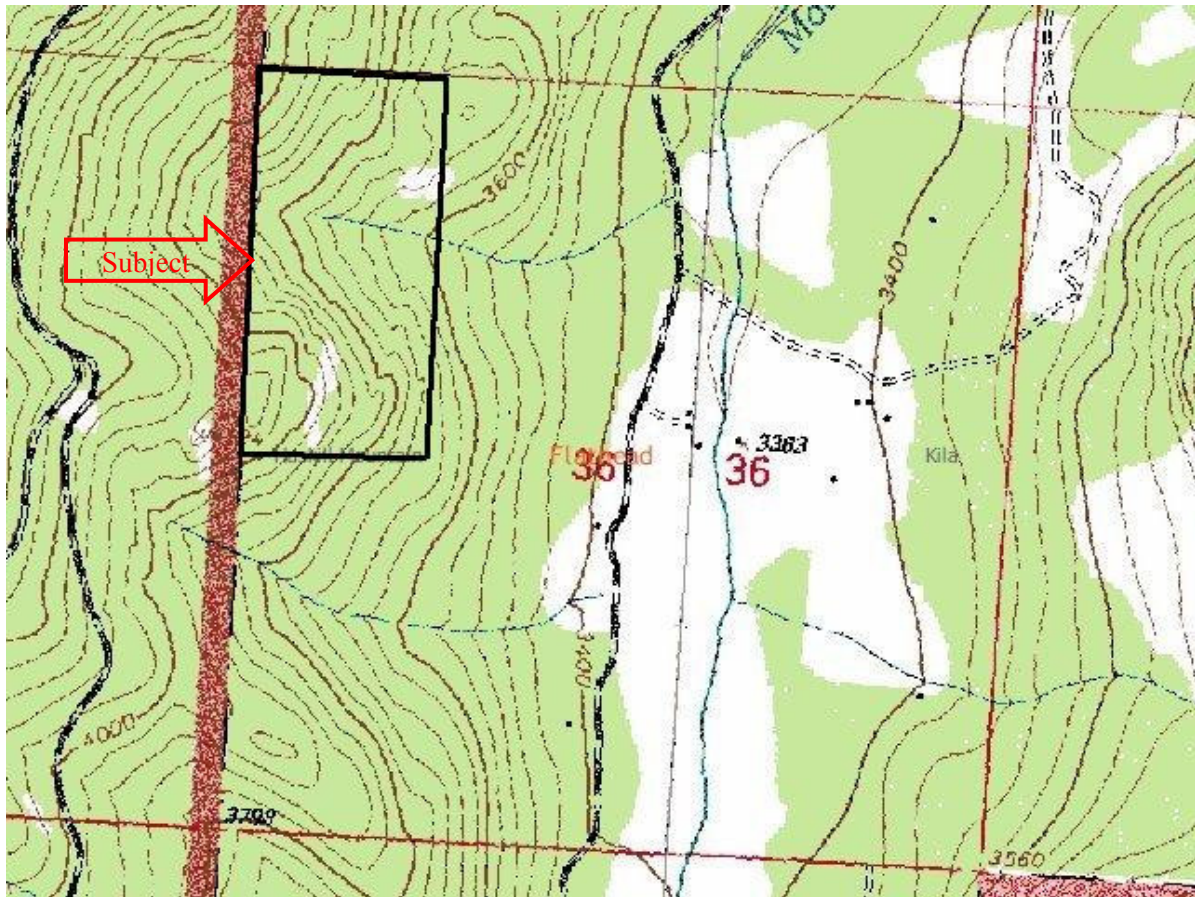
Subject Property General Location Maps



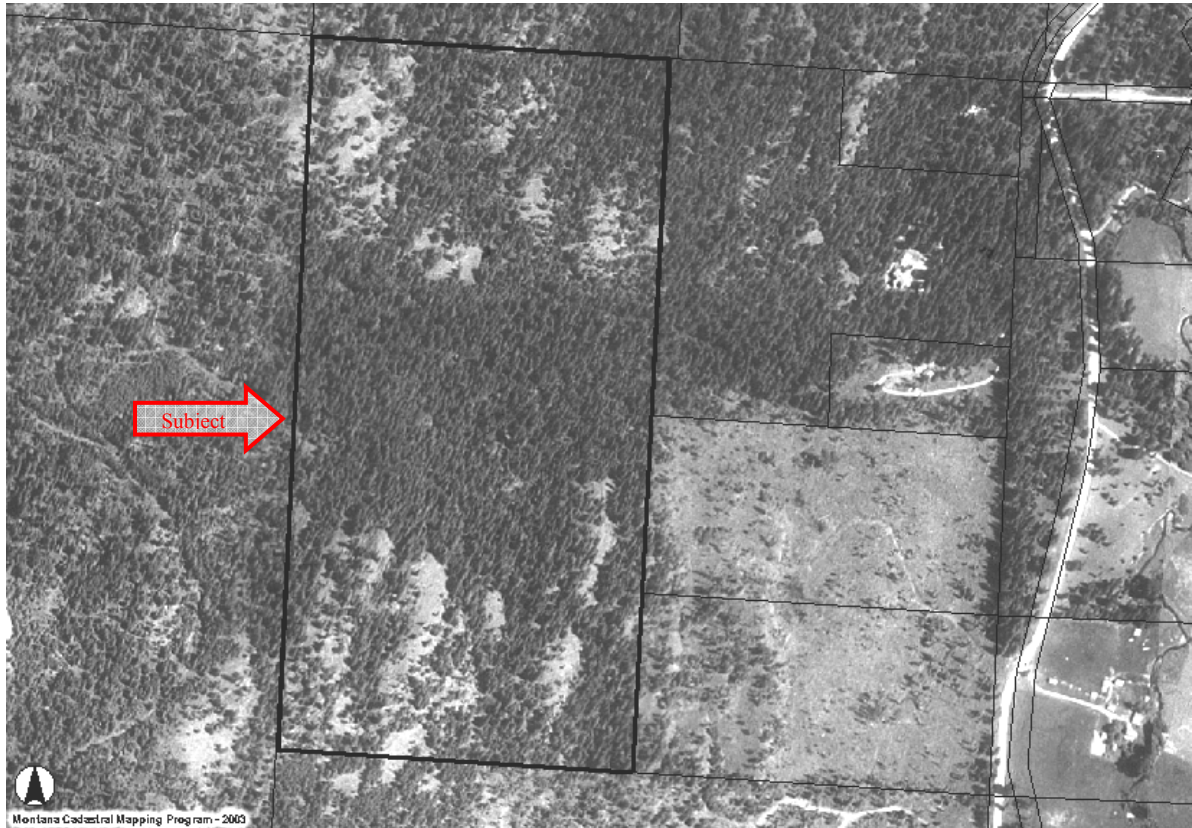
Subject Property Aerial Photos



Subject Property Topography Map



Subject Property Aerial and Photo



View of Subject and Valley From Near NW Corner of Property

ASSUMPTIONS AND LIMITING CONDITIONS

The certification of the appraiser appearing in the appraisal report is subject to the following conditions and to such other specific and limiting conditions as set forth in the report.

1. The appraiser will not be responsible for matters of a legal nature affecting either the property being appraised or the title to it. Except for information that was provided or uncovered during the research involved in performing the appraisal and ordinarily employed by real estate appraisers, no opinion is intended to be expressed for legal matters or that would require specialized knowledge or investigation. The appraiser assumes that the title is good and marketable, ("free and clear"), and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership and/or competent management. Unless otherwise mentioned in this report, the property is appraised as if owned in fee simple title without encumbrances.
2. The appraiser assumes that the legal descriptions furnished are correct and the appraiser has not surveyed the property. Acreage of land types and measurements of improvements are based on physical inspection of the property or information provided unless otherwise noted in the report. Sketches or drawings in this report are included to assist the reader in visualizing the property. They are not to be considered a legal survey or engineer's plan of any kind. Any and all other sketches, drawings, maps, etc., are also provided for informational purposes only and are not for any legal reference. Access has been investigated only to the satisfaction of the appraiser. No assurance of legal access, or lack of, is expressed or implied as a legal opinion. The same is true of encroachment and trespass issues.
3. The appraiser has noted in the appraisal report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, floodplains, etc), observed during the routine inspection of the subject property, and/or adjacent properties, or that was discovered during the normal research involved in performing the appraisal. Unless otherwise stated in this report, the appraiser has no knowledge of any hidden or unapparent conditions of the property, and/or adjacent properties, or adverse environmental conditions, (including, but not limited to, the presence of hazardous wastes, toxic substances, etc), that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property. Concerns about soil conditions, actual condition of improvements or systems, or property conformity to zoning, building, fire, ADA, and other such applicable laws, regulations, rules and codes, should all be referred to the proper experts.

4. The appraiser is not an expert in minerals, mineral rights, timber, timber volumes, crops, farm programs or water requirements and rights. Unless otherwise noted, only surface rights will be appraised with no value specifically allotted to the mineral rights or deposits. Timber values, if considered a part of the report, will rely on proper experts, as will farm programs. Typically, growing crops are not considered in the appraisal report. Usually it is assumed the water rights have been secured or perfected, with their value generally considered an inherent part of the land value, with any deviation from this to be included in the report. Rental and lease agreements, conservation plans, options and other situations may also require reliance on proper experts.
5. The appraiser has obtained information, opinions, estimates, surveys, plans, maps and information on regulations, restrictions and studies, etc., from various sources including the property owner, agent, or manager, as well as from real estate professionals, government agencies, appraisers and other sources. Unless otherwise noted, the sources are considered reliable and the information is complete and correct. However, the appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.
6. The appraiser assumes no responsibility or liability for future conditions, about which information was not supplied or readily available or was not public knowledge at the time the appraisal is made, nor for the effect of events, which might concern the value of the subject property subsequent to date of appraisal. Montana is a non-disclosure state and as such sales prices of real estate are not publicly recorded. Therefore, with few consolidated sources of sales information existing, and no obligation to release or verify information by many of the parties associated with the transactions, this appraiser may not know of sales of comparable properties, and absolute verification of comparable sales may not be possible.
7. If the Departure Rule is invoked, then it will be noted in the report. All extraordinary assumptions and hypothetical conditions, including, but not limited to, satisfactory completion and repairs or alterations, will be noted in the appraisal report. It is assumed there will be consistency with all the plans, estimates, specifications, planned work, projections, or requirements, initially provided. Deviation from those items may affect the value reported. Great effort has been taken to eliminate all error in identifying, developing and processing the report. However, if errors or omissions are found, they will have to be reviewed to see if they will affect the opinion of value reported.
8. The appraiser will not disclose the contents of this appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice, and/or applicable federal, state, or local laws, rules or regulations. The appraiser is not obligated to/by any unauthorized use of this report by third parties or the “extraction” of only parts of the report and attempting to apply those parts in any other process or to reach a conclusion.
9. It is assumed that there has not been any significant change, physical or otherwise, to the subject property between the inspection date and date the report is signed.

APPRAISER'S CERTIFICATION: This appraiser certifies and agrees that:

1. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
2. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or develop or present any analysis, opinions or conclusions supporting) a predetermined specific value, a predetermined minimum or maximum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific event or action, or the subsequent event directly related to the use of this appraisal report.
3. I have taken into consideration the factors that have an impact on value in the development of my opinion of market value for the subject property. I have noted in the appraisal report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous materials, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing the appraisal. I have considered these adverse conditions in my analysis of the property value to the extent that I had market evidence to support them, and have commented about the effect of the conditions on the marketability of the subject property.
4. I have not knowingly withheld any significant information from the appraisal report that would have an impact on value and I believe, to the best of my knowledge, that all statements and information in the appraisal report are true and correct. I have stated in this appraisal report only my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the limiting conditions specified in this appraisal report.
5. To the best of my knowledge, I have preformed this appraisal in conformity with the Uniform Standards of Professional Appraisal Practice. I have personally analyzed and prepared all the conclusions and opinions about the real estate that are set forth in this appraisal report. If I have relied on significant real property appraisal assistance from any individual(s) in the performance of the appraisal or preparation of the appraisal report, I have named such individual(s) and disclosed the specific tasks preformed in the appraisal report. I certify that any individual(s) so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in the appraisal report; therefore, any change made to the appraisal is unauthorized and I take no responsibility for it.

Thomas J. Konency, Montana DNRC TLMD Appraiser

Dated: August 12, 2005